A. Introductions

Board of Agriculture & Conservation Chair Rhonda Boyles:

- Welcomed and thanked the Ad Hoc Committee members and support staff.
- The Ad Hoc Committee members to introduced themselves.

Ad Hoc Committee members present were:

Mr. McLaren (Mac) C. Carter, Board of Agriculture & Conservation
Mr. Wesley E. Eckert, Darigold (retired)
Mr. Ernie Hall, Alaska Furniture Manufactures
Mr. Paul Huppert, Palmer Produce
Ms. Ginger Blaisdell, Aide, Senator Lyda Green, telephone
Mr. Don Lintelman, Northern Lights Dairy
Mr. Rex Shattuck, Aide, Rep. Mark Neuman
Mr. Joseph Van Treeck, Matanuska Maid
Ms. Gail Phillips, Business
Mr. David Wight, Business
Mr. Ken Sherwood, Alaska Mill & Feed

Support Staff in attendance were:

Mr. Edmund Fogels, Acting Deputy Commissioner, DNR
Ms. Rhonda P. Boyles, Chair, Board of Agriculture & Conservation (BAC)
Mr. Larry DeVilbiss, Director, Division of Agriculture
Ms. Candy Easley, Loan Officer, Division of Agriculture
Mr. Raymond Nix, Natural Resource Specialist, Division of Agriculture
Ms. Rachael Petro, Special Asst., DNR Commissioner's Office,
Ms. Lora Haralson, Administrative Assistant, Division of Agriculture
Mr. Frank Huffman, Manager, Mt. McKinley Meat & Sausage
Mr. Chad Padgett, Director, USDA Farm Service Agency
Mr. Milan Shipka, Associate Professor, UAF Cooperative Extension
Ms. Carol Lewis, Dean, UAF School of Natural Resources & Ag. Sciences

B. Welcome

Acting Deputy Commissioner Ed Fogels:

- Welcomed the committee and on behalf of Commissioner Mike Menge thanked the committee for participating on the Ad Hoc Committee

C. Scope of Work

Special Assistant Rachael Petro reviewed the Ad Hoc Committee Scope of Work.

D. Matanuska Maid Briefing – Joe Van Treeck, CEO Matanuska Maid

Questions & Answers on Matanuska Maid

Gail Phillips: How much milk comes in out of state for your production?

Joe Van Treeck: 60% today.

Gail Phillips: Is there an opportunity or chance for one of these other big dairies from the lower 48 to come in and take over?

Joe Van Treeck: Yes, Fred Meyers and Safeway are both vertically integrated grocers and they are in competition with Mat Maid and Northern Lights Dairy. I would like to defer to Mr. Eckert to expand because Darigold has also looked into that same thing in the past.

Wes Eckert: Agriculture has consolidated very rapidly as far as dairy farmers are concerned. We used to have 50,000 dairy farmers at Darigold. Now we have 600. In 1936 when the cooperative was formed there were 39 dairies in the city limits of Seattle today there is one. The industry has really consolidated tremoundously and it just is sure volume. Our standard is basically a minimum fluid milk plant would be 1 million pounds of milk per day to make it pay. A minimum manufacturing plant would be 3 to 5 million pounds of milk per day to make it pay. So it is size that matters. Darigold picks up from the farms 8 billion pounds of milk a year and the producers will go up to all ranges, they have small ones of 100 cows, but some are over 10 to 20 thousand cows and so their cost to produce you can imagine is pretty low. Basically it is whether they have debt, whether they do the work themselves, what their feed costs are and what their productivity per cow.

The two reports you gave us were outstanding the one by Utah State and the one that these people put together, but in there they have productivity per cow says its 12,000 per pound per cow average locally and I would say that we have outstanding farmers will have 30,000 lbs per cow per year and that report says 22,852 in the State of Washington and I would say that would be about average. The better producer would have 24 to 27 pounds per cow. That is just a summary for someone to come up and do it here.

Rex Shattuck: A question for you, you say industry is sounds like you are talking about large scale dairy farming and that model in the lower 48. I guess you saying that there is a lot of consolidation in the industry in terms of milk producing plants. What can you tell me or maybe staff can work on this. What can you tell me about what seems to be nationwide in a lot of areas that increase focus on health or natural type products? We look at the local retail market and you see increases in the natural pantry type situations and even in our own produce farmers. It seems and Larry can probably attest to an interest in natural local grown. What about dairy? Do we see is that model you are talking about in Alaska or is there as one senses an increase in the interest in smaller farm local milk products?

Wes Eckert: There is a lot of interest right now in organic milk. The volume is small for organic milk can only find little manufactures that will process that because it is so difficult to process, difficult to raise. I think these guys are getting $22.00 per hundred weight for that milk. So I would say the answer is yes, but to what extent I don't know.

Milan Shipka: The difficulties with trying to achieve organic production in Alaska are that every bit of feed that is fed to the cow has to be organic.

Mac Carter: I just read recently where the increase in sales of organic milk has risen 25% in the last year. While 10% of consumption has gone down. So it makes sense in one position to go in that direction maybe it's a gradual incline to that way, but I don't think it is something we should rule out as a possibility because everything is going to cost as long as the consumer is willing to pay for that difference in cost then you have a market for it.

Rex Shattuck: Mat Maid is a local dairy and is it unique in Alaska. Not so much organic but as a local dairy. I guess I'm confused in terms of looking at the organic versus jumping to a model where we are talking about a large scale dairy where did Matanuska go away from that or there is a market for the organic and the all natural type produce isn't that what Mat Maid is?

Joe Van Treeck: I would say that question is not about the customer it's about what's paying the bills it's the volume. While I do agree we have had this discussion over the years about homogenized milk, raw milk organic before it became popular, but we have been forced to be able to cover the freight on our own scale and we shy away from lactate. We don't make every product we make multiple sizes of in gallons down to half pints because there is too much loss, to much shrinkage, today we don't even put up our own whipping cream and half and half we buy that pasteurized and shipped to us with our name on it because there is too much line loss.

Joe Van Treeck: Mat Maid product is on consignment in the stores. Whatever is not sold we take back, we can't overproduce and just walk away from somebody and say well I guess that they won't get a delivery next week. When that stuff is getting close to the expiration date we have to take it back and give try to find somebody to take it. So the scope becomes important when you look at the picture from that perspective. As soon as you turn on the spicket you are committed, committed to packaging, committed to the product and you're committed to a loss.

Wes Eckert: Joe I have a couple of questions. Your company enjoys and unusual support in the State of Alaska Mat Maid is very very powerful marketing name and is very unique in the country. You indicated that you had 40% of the market share is that Anchorage that seems like a high number or is that the whole state?

Joe Van Treeck: No it's not the whole State. It includes Talkeetna and Girdwood and south central. The farthest we go south is Cordova and farthest west is Dutch Harbor, Prudo Bay to the north, but we circulate consumer feedback from Fairbanks to Kenai. Our biggest share market is the biggest share of people which is Anchorage to Wasilla.

Wes Eckert: At the retail price level what kind of a premium do the consumers have to pay to get your milk versus all the other milk that is in the market place?

Joe Van Treeck: $2.99 for Fred Meyer versus $4.39 for Mat Maid

Joe Van Treeck: That is the reason why the WIC program costs us loss in sales. When they stuck this thing on the front of our milk telling the WIC people you can't buy the highest price product and it brought attention to all moms.

Don Lintelman: That is what happened to us to. We l lost $70,000 in the last 3 months in milk sales.

Mac Carter: Mat Maid has to stock the shelves, if they don't and they run out guess what the shelves are empty of Mat Maid products. So there we have another problem

Joe Van Treeck: Fred Meyers Safeway is good organizations they help my business model but, their business is to make their shareholders happy and their store managers receive bonuses on store brand sales.

Ernie Hall: Joe you used the term to peak my interest this short date. Obviously any product that they bring in they own it when it's on the shelf.

Don Lintelman: They own it from Seattle.

Ernie Hall: So when it gets short dated they either sale it or throw it away and you pick your milk up and take it back.

Joe Van Treeck: We will make a delivery in the back door and they will say don't deliver today they are loan on their own product.

Ken Sherwood: Do they mark your milk up or do they take a higher margin?

What is the difference in your whole sale price and what they are paying?
Don Lintelman: The people won't pay more, the stores won't pay more. So then we get into this situation and the store keeper says if they are going to pay more than we will just jack the price up so then we are out of sales.

Ken Sherwood: Do you think the Mat Maid name keeps you in this chain?

Joe Van Treeck: I'm not so sure it's the Mat Maid name or if it is State ownership. If you follow the two major chains that we have here and you go anyplace else where they sale you will be hard pressed to find commodity milk. I'm not sure if it is the consumer push and in our case I'm not sure what State ownership of part of that has had over time because, there are district managers that have been here a long time.

Ernie Hall: What do you anticipate the impact will be when Wal-Mart goes to Superstore?

Joe Van Treeck: We are in Wal-Mart and we sale brand product.

Ken Sherwood: Does Wal-Mart give you a fair shake?

Joe Van Treeck: As much as Wal-Mart gives anyone a fair shake?

Ken Sherwood: Of our experiences with Wal-Mart they are actually gives you a better opportunity to stay in their stores.

Joe Van Treeck: They still like to have a choice and from that perspective we have done okay with that, but again you have a $1.50 to $2.00 difference. They want you to deliver seven days a week and wouldn't care if you were there twice a day but, we just can't afford to stop like that.

Ken Sherwood: What is the freight on bulk milk coming up?

Joe Van Treeck: About $3200.00 a load.

Ken Sherwood: What are getting on those loads 40,000 pounds?

Joe Van Treeck: 54,000 pounds.

Ken Sherwood: So you are $.08 cents with the sur charge door to door.

Joe Van Treeck: It might be a little more than that it depend on what's going on. We just got a sur charge drop yesterday.

Ken Sherwood: So you are not bringing up bulk milk, less then what someone else is bringing up the finished product. What are they paying for reefers to come up?

Joe Van Treeck: We need to try to make sure we are getting the best bulk rate. My position it should be $4.00 or $5.00.

Wes Eckert: They can deliver milk cheaper in the stores than Joe can.

Ken Sherwood: You don't know what the landed price for sale Safeway brand as opposed to the landed price of what you are doing?

Joe Van Treeck: That $2.99 gallon of milk right now there is probably a little bit of margin on but …(indiscernible) goes back for $11.00 to $14.00 and that $2.99 milks somebody will be eating it.

Wes Eckert: Safeway and a Kroger plants philosophy are entirely different. First of they are not a profit center they are just an extension of the grocery store upfront. Their idea is to basically produce it as cheap as possible to get it in the stores. First off they limit the lines that they are going to have to reduce cost so they don't have a big variety and only the high volume items will make. Secondly, they are going to eliminate too many labels. When you have to go into a cooler and pick this order and put it all on a pallet which is very, very expensive especially with labor costs right now. Most important these stores will take a pallet of this and a pallet of that and they will actually make a minimum order requirement on most things. They know it will be wrapped on a pallet and put in a semi shipped up here taken off a forklift and put right in a store so the costs are just really cheap and again it's just a pasture thing it's not a profit center. In the store manufacturing there are some real hard rules on what you can order as far as a store manager and you have to order large volumes.

Joe Van Treeck: That volume that he is talking about represents about 80% of the grocery sales. Another 20% is spread around with Wal-Mart, Costco and Sam's Club. Military commissaries represent a big chunk of what we are trying to be in this industry.

Ernie Hall: Joe I want to be clear on something. Your direct payroll is 2.8 million. How much is your benefit package?

Joe Van Treeck: I would say it probably rolls up to around 3 or 4 million for 50 employees but, it shrinks back and forth.

Ernie Hall: Also out of curiosity we have a lot of scares with spinach and coli and protecting the food chain. What do you anticipate in the future as far as national security affecting the food chain? I am assuming there is some kind of expenses to the dairy industry that are mandated.

Joe Van Treeck: The dairy industry is one of the most highly regulated industries already. The nature of the product doesn't have much defense against bacteria built into it. We are already inspected and regulated for normal good housekeeping practices. We have been for the last three years and regularly our federal inspectors come through and ask us what we are doing, I can't talk to them and they can't ask us for a plan, because it's not secure if everybody knows what it is. Yes, there are issues we are right in the heart of Anchorage and we have McDonald's neighbors on one side and buttered up to streets on the other three sides. There is no where to put a fence, we can't secure the yard and if we could it would doubtable if we could get a fence passed with City zoning on a grandfather rights deal. We have challenges ahead of us. The plant was not built for the kind of security necessary for today's times. It was built in 1964 it wasn't built for what is happening today.

Gail Phillips: Joe you mentioned about the WIC policy causing such a decline in sales, did you say that was a State policy and was that State policy mandated by Federal regulations?

Joe Van Treeck: Yes, USDA and the President were looking for places to save money two years ago and entitlement programs were one place. The State of Alaska took the suggestions that USDA offered as alternative programs that they might consider in order to stretch the dollars they are going to get over program participants. That what it was really about. We talked spent a lot of time both written and on the phone trying to talk the WIC folks into changing their implementation structure strategy and explained to them that the sales damage that it was causing from what they did. What they heard us say was that because the WIC recipient wasn't buying milk anymore that we had lost a lot of sales and they were saying well we don't sale that much milk through WIC and they missed the point. What we were saying was no it is the way you identify the change plan from the consumer and it brought out other consumers right along with it. It was almost like a negative advertising campaign.

Gail Phillips: It would appear to me that there was still some flexibility in State policy if those were just suggestions from USDA and not mandates.

Joe Van Treeck: The mandate was this is all you are going to get. How you decide how you are going to spread it around is your business and here are some suggestions. The problem was by the time the problem was out there it was already over, the damage was done.

Rex Shattuck: Going back to security for a moment. You addressed a parameter security. Is security in the production process anywhere you see a necessity for capital and expenditures for the future?

Joe Van Treeck: The security thing is encompassing. It is about training personnel as much as it is about capital and expenditure for tools. There is a huge record component, that is burden son to somebody like operators more our size because we are not staff up to have a little extra time for somebody. It is a real serious now because if they come in and want you to produce records on recall for example you got less then 24 hours to show them where you produced what was in it, where you got it from, who got it when it left the building and where it is.

Rex Shattuck: The short dated product question when you dispose of milk to secondary market do you re-coop money?

Joe Van Treeck: No our secondary market is we who hope that the 4-H kids will take it. Our goal is for 8 billion pounds per year shrinkage is a big deal 1% shrinks a lot of milk but knowing that we have milk on consignment you got to be good at writing orders because the goal is don't see me back. That is a big deal here because the ships come in twice a week and milk is ordered 10 days before it gets here and there is a huge lead time. The grocery store guy that writes the order in the back room is writing next week's order before he gets the order from last week. That is where you get into these situations where you roll up to the back door on a Monday morning and they say geez sorry we still have our milk from the weekend come back on Wednesday and they mark their milk down. So, for us to have shrink it is a problem because $45.00 per ton at the landfill and they don't want to the liquid, so we actually have to dispose of shorts down the drain. Somebody has to dump those, so you have labor involved and the expense of bringing it back and you need to deal with it right away. It is not a place we like to be. We have the most of that the farther we get from Anchorage.

Joe Van Treeck: Today we have got just in Anchorage but, we have added a number of stores just in Anchorage but we haven't been able to add people. So we have more delivery costs for the same volume and on top of that and the stores implemented receiving hours. The window for direct delivery vendor is about 5 hours from 6:00 to just before noon is all we have and we get one door, Pepsi, Frito, Bakery, us, mother's cookies. We have increased distribution costs because of that conflict. We now have people that are merchandisers in the stores, as many as we can afford to be in facing the cooler. The stores are okay with that as long as they don't have to do it. We have people running around we try to get them around ahead of the delivery so that the shelves full and the coolers are empty. Them we try to get them around between the deliveries, but there is a limit to how many folks you can have. So in 20 years we went to a sales person and half to sales director and 8 people and co-contract with their merchandiser in Fairbanks and we contract with someone over else in Kenai to try to cover that decathlon. So our normal compliment of employees where there would be 42 or 43 brings us up to 50.

Mac Carter: So basically your marketing strategy has moved not only from advertising just on the newspaper and TV but on also making sure the product is shelved on the shelf in the store.

Joe Van Treeck: It is a direct marketing expense.

Mac Carter: That is something that was never part of the scenario with Mat Maid in the past but it has gradually become that because outside influences rather than doing things has now shifted.

Joe Van Treeck: Our marketing strategies we need to be in a place where milk is sold.

Ken Sherwood: Do your non dairy products contribute significantly are they more profitable than the dairy products?

Joe Treeck: Yes, that is where our margin is, the milk is carry the freight, light bill, phone bill and most of the labor costs. The cultured product is where the value is and where we can drive more value.

Ken Sherwood: Do you package your own orange juice?

Joe Van Treeck: Yes.

Ken Sherwood: Who does your bottled water?

Joe Van Treeck: Us, including the production of the bottles.

Ken Sherwood: Mr. Lintelman, I'm assuming you're profitable. How does your market differ from Joe's?

Don Lintelman: About the same when Mat Maid's go down ours go down. He uses the same salesman we do, so he does put the stuff on the shelf, and there again he does run out and doesn't have a chance to get around to all the stores at the same time to stock the shelves. Our sales have dropped in the last three months about $70,000.

Ken Sherwood: Are you in grocery stores?

Don Lintelman: Yes, we are in grocery stores and we are in small stores also, and we stock Mat Maid's by products. That is what helps us put our milk in their stores is because Food Service of America comes around to all these other small stores also and they have their product and they have the full line, but this gives us the full line by cooperating with Joe and we are now selling Joe's water also. We don't know how the water sales will do so maybe it will help us

pick up some sales that way and help the delivery costs and stocking.
Ken Sherwood: If you modernize your plant are you going to have less employees? You are a teamster union and if you were to go non-union would that cut your cost?

Joe Van Treeck: The plant has got to be faster than what we are doing now. So you would have to take people out of the equation.

Ken Sherwood: Would it be significant if you were to modernize your plant?

Joe Van Treeck: It depends on the modernization. The board at one time asked me to do a quick look back with the machinery supplies and find out what it would take to get into that kind of business. It probably would take 10% to 15% out but our real cost anymore with labor has to do with distribution sales. It's the market so I don't know if production without a volume increase?

Joe Van Treeck: The Corporation has a union agreement with teamsters union that covers about half the employees, warehouse managers, truck drivers and plant operators. The office workforce of administration and our Palmer operation is non-union. On par we just completed negotiations for a new five year agreement and the average wage today for journeyman is about $20.00 per hour. With compensation it adds another $20.00. I had the same discussion with the Board on Friday and I said it's not the people being paid or grossly being underpaid it's kind of in the middle for today, but we are still having vestivigs of fairly rich benefit packages that have been passed down through the years. The range of the salaries in that same workforce is $12.50 to $23.00 to kind of give you an idea. We employees that have 4 weeks vacation, a months worth of sick leave and a company paid health plan that is where we get hammered and we set the workman's comp rate so our performance issues are our own safety program.

Paul Huppert: What is your return of your workman's comp?

Don Lintelman: $40,000 per year.

Joe Van Treeck: Between $400,000 and $500,000. To give you an idea of where health costs are today we estimate that for our family plan is worth about $18,000 per year.

Rex Shattuck: You said that your margins are basically your by-products?

Joe Van Treeck: 80% of what we do is still liquid milk and that is what is carrying the basic cost of freight.

Rex Shattuck: What part of your annual revenues actually comes from milk?

Joe Van Treeck: 70% milk and other 30% is split out between the cultured products we buy and resale and the plastic bottles we do in the water business.

Rhonda Boyles: I would like to have you if you could cover these four subjects a little bit more. State institution sales, additional explanation about the water bottling facility in Palmer, the pricing paid to the producers and the history of that where we are now, et cetera and your annual report when you gave it you brought up privatization and I think we need to have a little bit of discussion about that.

Joe Van Treeck: I'll start with the bottle production plant. During the coop days when Mat Maid was first formed I was in Palmer under the water tower and of all the secondary business the coop had one of them was feed mill operation. After the bankruptcy we ran a feed mill and a creamery operation from 1985 until 1991 then we shut the feed mill. The biggest reason the feed mill got shut down was we had gone through the first wave of Pt. MacKenzie dairy producers. We had a down turn in the economy the creamery had gone bankrupt. It had reduced the price for milk and the state crushed credits and a number of dairy producers got walk away deals that gave back the keys and the places went vacant. So the volume of feed that could be sold shrunk. We lost $150,000 to $160,000 in 1990 contributable to the feed mill.

Joe Van Treeck: We decided we needed to repair our trucks, so we did truck repair and we were having trouble sourcing bottles from our vendor. The local vendor had set up a global plant we were paying higher prices to him that we were charging and the dairy folks were paying twice what we were paying. So one of the first big things we did after we shut the feed mill down and equipment purchases the board agreed to allow us to buy the person who was making those bottles out of business. We re-tooled the feed mill warehouse and turned it into a Grade a global facility and started making our own bottles and from 1992 to 2004 we continued to expand that operation. In 1997 the Board saw us through another capital investment. We wanted to put milk in round bottles that was the new rage but we couldn't afford to do round bottles and we couldn't afford them to make them. So there was the beginning of a water industry. We made 4 to 5 million bottles last year for water. In 2002 the Board saw us to go into an additional milk bottle modeling with the addition of a ½ gallon gobal machine and our paper packing machine had already used it up 20 years of its life. May 2005 we had production of plastic now for all the sizes about ½ gallon for milk so we now have got four global machines in the warehouse building in Palmer.

Joe Van Treeck: Water is secondary; most of the water we produce is for custom packaging purchases. We don't have the in customer whose has the customer who asks us to fill product in the bottle in our plant. Probably 2/3's of the water we bottle is that way and the rest is for our own use and of course most of that is in gallons and 2 ½ gallons that is where the big volume is. We are shipping regularly now product out of the state either to domestic US destinations, we shipped one today to California or to Asia and we shipped five of those to Japan last month. All these for others we are just holding making the bottles, labeling the bottles and charging the fee.

Joe Van Treeck: State institution sales are a poor subject and the state had us but didn't want us. We found out in 1985 we weren't on the self insured plan for the State. So we are paying the same kind of bills that Mr. Hall and Mr. Sherwood are paying for their business and the same kind of fees and we live by the same sword that anybody else does that are trying to bid for state of federal contracts. The biggest problem with institutional sales is that they are bulked up in Seattle major food service players tend to end up with them because they can bring up knapkins and plastic forks right along with a gallon of milk and have lettuce so it is difficult to make deliveries. Think about Corrections how many trucks do they want going through the gate making deliveries. So food service of America can roll in there with one truck with everything they need. It makes it awful difficult to compete against that and we haven't had a state intuitional contract in 15 years.

Mac Carter: Is there anyway to work with them to try to get part of those sales through them and maybe perhaps still have there name on it?

Joe Van Treeck: Local is not a big deal for them. Shelf life is a big deal for them that are what they are selling.

Paul Huppert: Food Service of American has a warehouse in Anchorage has anybody tried to contact them to put it into their system? What about the prison system and the institutions?

Don Lintelman: We have tried that. They won't deliver, they have their own product and they will leave ours sit there because ours will last longer on the shelf than theirs. They go into Pogo Mine and they won't deliver our product and Pogo Mine wants our product. When Food Service of America runs out then Pogo Mines comes down and tries to milk from us, but we don't have it because they are not a regular customer and we can't just take away our regular customers to satisfy their needs.

Paul Huppert: I agree we have this state legislation for purchase of local products and nobody has followed through to get the wholesalers. My argument is and always has been that you and Mat Maid and us we can't deliver to the State institutions they want us to go through these wholesalers. We have some success with it but I think that we just need more help from the State level.

Joe Van Treeck: We deal with one of the major food service centers on that

kind of relationship.
Gail Phillips: What is the relationship with the military?

Joe Van Treeck: Mat Maid and the military there are some provisions in the military contract that are beneficial today. The contract for the commissary is really an open call. I think you are probably are servicing as least half the commissary in Fairbanks and at Eielson. We are servicing 100 % of Elmendorf there is no other brand on the shelf for us. The troop employment here has been really down. The troop contract has gone from over 1.5 million to under a quarter of a million dollars that is the change. There is a bigger threat that is just now occurring and that we are try into get a handle on. We just received word about two weeks ago that they are going to try to invoke a prime vendor program on dairy like they have done with meat and vegetables. The email we got said they are going to put the whole west coast out for bid and if you win the bid you have to service the whole west coast. So I would have to service San Francisco and Los Angeles from here and that probably is not likely to happen. So our congressional delegation has tended to be proactive on things of this nature and we are hoping to invoke them to help us put some reasons so that Alaska should be left just the way it sits. The military sales represent 15% of our gross on milk and that is a big chunk for us.

Paul Huppert: The only reason we are in the commissaries in the military is because Senator Stevens laid the law down to them. I frankly don't think it is the most efficient way for the military to purchase, but we used to bid competitively. Now we don't bid it's the prime vendor exactly like Joe said but they make a provision for us to supply that prime vendor with that product. Be sure and stay in touch with the Congressional delegation regarding the prime vendor issue.

Rex Shattuck: Institutional sales in Alaska Schools?

Joe Van Treeck: Schools are bid with a one year contract and some are fixed price. USDA and school nutrition program have made language changes and the preference is not allowed, the preference law that passed in 1987-88 no longer helps Mat Maid bid against 5% preference for local businesses with distribution offices in the State put us on …(indiscernible) because we do not have any school business this year.

Mac Carter: Can't get something in a volume in the school districts. Is your price that different?

Joe Van Treeck: It's not dollars, the bid is off .01$ you loose the bid. At one time we had all the school districts and the military.

Rhonda Boyles: If the school received federal subsidy they could not use bidder preference in their purchases. Is that what effected Mat Maid?

Joe Van Treeck: I don't know. There was an AAG opinion on that when Fairbanks contested a bid.

Joe Van Treeck: Milk pricing. The local milk price paid to a producer for their milk at their farm is $19.75 per 100 pounds there is 11.6 gallons in 100 pounds. Mat Maid also offers a quality incentive program to the producer in $.25 increments to $1.00 per pay period. At every pickup a sample is taken thrown out the high and low and average the balance. Measuring standard plate …(indiscernible) and always test for coli form producing bacteria and have parameters set up for both of these for quality. If they make both of these standards the producer makes $1.00. If we don't have to pick up the milk, a $.32 every other day hauling credit provided. Plus, we provide the cost of the haul to producer. The producer paycheck could gross up would $21.08 if they earned everything and our cost for that same milk is $21.08 + the cost of delivery to Anchorage from the valley.

Wes Eckert: What is the cost to haul from Pt. MacKenzie to plant?

Joe Van Treeck: $2.50 with all bulk charges.

Wes Eckert: Is the base price the same for all farms?

Joe Van Treeck: The base price is the same for all farms under permit before 9/1/2005, any farm after that is on a sliding base scale for any new producer or old a producer that moved to a new farm where new permits are required and it is based on the standard milk pricing for the Northwest. The producer under the new program is $16.84. Based on the uniform price is $11.50 per hundred weight in the Northwest program, the base price is tagged with that number and it goes back to $23.00 to $24.00.

Wes Eckert: Let me review what you said. $19.75 per hundred weight, maximum quality bonus + $.32 + $2.50 per hundred weight hauling = $23.50 per hundred weight delivered to Mat Maid's back door.

Ken Sherwood: Do the producers consistently make the quality incentive?

Joe Van Treeck: Yes.

Gail Phillips: What is the largest producer farm size that you purchase from today?

Joe Van Treeck: 90 cows is the average.

Wes Eckert: How many producers are there now?

Joe Van Treeck: Five farms with six operations and less than 500 cows in the valley.

David Wight: What is the volume produced from the larger farms?

Craig Trytten: 5,000 pounds per day.

Joe Van Treeck: We bring in about 25,000 pounds per day per truck.

Ken Sherwood: You are paying new dairies a lot less and they can't make it at $19.75 at a base. How are they going to make it at $16.84?

Joe Van Treeck: It has nothing to do with existing producers or a subsidy program could be put into place to help?

Gail Phillips: What is the total cost of the milk delivered from the outside to your backdoor?

Joe Van Treeck: $2.50 per hundred weight less from Seattle.

Rhonda Boyles: Clarified Joe's role on the committee.

Rex Shattuck: Could you post the price paid for milk to the producers on the website?

Joe Van Treeck: Yes, I could do that.

Rhonda Boyles: Reminded members that confidential information and financial information will not posted.

E. Dairy Producer Briefing – Milan Shipka, PhD, University of Fairbanks

- Crisis in the dairy industry.
- Alaska's location.
- Feed is a factor.
- Intensive grazing system in conjunction to the milk production
- Dairy size

<u>**Questions & Answers Dairy Producing**</u>

David Wight: Has there any work on what can be grown in Alaska?

Milan Shipka: Yes, timothy hay and barley

Carol Lewis: Yes, a lot of research has been done and canola and fertilizer trails with limited availability.

Milan Shipka: Fish meal is outstanding.

Paul Huppert: Oats, feed and barley?

Milan Shipka: Cost for feed seed was $800.00.

Ken Sherwood: Freight $200.00 brought in + freight factor = $300.00 per ton.

Milan Shipka: Peas make good silage.

Carol Lewis: Committee should look at various options for food.

Don Lintelman: Buying soy bean meal, but transportation costs are different.

Joe Van Treeck: Corn, leaves the higher protein.

Mac Carter: Fish meal would help to replace nitrogen

Milan Shipka: There is no infrastructure to get it from Kodiak to the farms.

Milan Shipka: Dried brewers grain is a good source.

Ken Sherwood: Brewers grain but the freight from Juneau to Anchorage, and the unit price of fish meal is high, freight is high. Rendering plant in Anchorage that we pick up. Transportation is a huge factor. We make animal feed for all animals and have to use grains that are interchangeable, margin on dairy feed is lower than bagged feed and dairy feed is based on volume that pays for the overhead.

Milan Shipka: Organic question, in order for milk to be considered organic everything fed to that animal has to be certified organic. Natural milk doesn't have as stringent requirements as organic.

Craig Trytten: To much fish meal makes milk taste like fish. There are certified organic growers for forage – the Canadians on the island.

Ken Sherwood: Dairy farms in Washington, trying to go organic to make more money.

Milan Shipka: Dairy farms in dry regions to make own feed and Alfalfa is best feed not grown in Alaska.

Wes Eckert: The productivity per cow is half as low in Alaska.

Milan Shipka: Feed and artificial insemination and Canadian Border closure are major components to low milk production in Alaska.

David Wight: Feed value is the best we can get and cost of bringing other feed in is a big factor.

Joe Van Treeck: Explain the cost to feed as a percentage of the value of the milk?

Milan Shipka: 45% to 60% of the cost to make milk is feed cost.

Mac Carter: What feed can we could grow in Alaska, could UAF developed a strategy?

Milan Shipka: There are barley, grass crops and alfalfa varieties that can grow in Alaska but, alfalfa takes three to four years to ground and won't winter in Alaska.

Carol Lewis: UAF has literature on feeds. What changes are the costs for research?

Milan Shipka: UAF faculty is reduced to research the feed factor and there are limits on what can be accomplished. Funding for research comes from federal funding with state match.

Paul Huppert: Lack of research is a problem for successful agriculture, research is needed for Alaska.

Carol Lewis: In order to service, cheap feed and a good genetic source.

Rex Shattuck: Is funding for UAF program a factor?

Carol Lewis: If the State of Alaska wants to expand for agriculture, it will have to be for the State to decide. UAF has commitments and have asked the State for funds, but we have not had any success. UAF president is committed to agriculture but, needs support from the industry.

Paul Huppert: The State legislature could earmark for agricultural research.

Carol Lewis: The State can't earmark funds anymore, if an appropriation comes in through the legislature the University will ensure it will go where it is suppose to go.

David Wight: My conclusion is the cost of feed from the outside is prohibitive, look at the product (indiscernible) and the niche market approach a balance to bring in some feeds to improve productivity and you do it on a cost effect way. Balance locally and what is bring in to balance.

Milan Shipka: There is no farm in Alaska that feeds just Alaska feed; everybody has to bring feed from outside.

Wes Eckert: How many farms were at Pt. Mac when it first started?

Carol Lewis: 19 tracts allocated for dairy, 10 dairies.

Joe Van Treeck: The most producers that bought in milk were 20.

Chad Padgett: The cost of feed is a factor in Alaska. There are federal farm subsidies and a lot of grains and feeds are subsidized down south. Alaska doesn't have those subsidies for Alaska growers.

Rex Shattuck: Could the universities show unaudible Agriculture?

Carol Lewis: Yes I could do that.

Milan Shipka: Another difficulty is the limited creameries and slaughter facilities in Alaska to choose from.

Don Lintelman: There is opportunity to do these things. To put in place like raising granola and extract oil can be set up in Delta. Don't know what the energy rate is, sure but they are doing it now in Oregon, small extraction place that can do up to 54,000 gallons on an 8 hour of oil. Other ways we could cut back on granola doesn't have to be totally ripen.

Carol Lewis: The UAF now has a new pamphlet is out for granola.

Milan Shipka: there are opportunities on a commercial basis for granola production. That is why if we are going to have a dairy industry it will require unique thought.

F. Agriculture & Organic Briefing - Carol Lewis, UAF, Dean & Director, School of Natural Resources & Ag. Sciences

Carol Lewis: Please review the Ferguson report and Godfrey report. Change is here for agriculture industry. The US market is split. The greater the high income and low income brackets in the population and the middle is widening. Consumer food product the producer is price taker and consumer is determining the price. The consumer is the price maker. For supply agriculture – the producer is price maker. The dairy industry with WIC as the producer price maker and the consumer takes the price. The consumer will take the lower price. If there is no ability to produce in the lower price bracket, the lower income consumer will not take your product.

Carol Lewis: Alaska is urban State; we need to understand two different segments of the market. Organic with local supply, specialty products falls within the demand of the agriculture market. There is big box organic (own niche) and local organic regionalized specialized is demand. In my opinion to a demand would require an entire revamp of the marketing strategy that is in place for Mat Maid and Northern lights. They can't supply product at the price the consumer wants. How to change? Freshness, support local big revamp, marketed and produced. UAF is doing organically produced research now.

Carol Lewis: If we are going to stay and supply agriculture as small demand component it will require tweaking and look at the small producer or market on the internet. It will take a huge revamp for marketing and processing chain to move. We have to re-think where we are and where we are going with the industry. I don't see how it can survive, due to debt, high operating costs and low production of cattle. It is a huge challenge and we need to re-think the industry.

G. Hay and Grain Briefing – Larry DeVilbiss, DNR, Director, Division of Agriculture

Larry DeVilbiss: Not mentioned in my report is that bread can be used for feed.
When the borders open and we get feeder cattle in State it will increase the demand in feed. We have access to the nitrogen from Agrium on the Kenai Peninsula. But that plant might close due to natural gas costs. If that happens nitrogen prices will go through the roof.

Ken Sherwood: Nitrogen would be 40% higher if plant was closed.

Larry DeVilbiss: There is a grain surplus in the State.

Carol Lewis: We can produce rye with a low yield and it is a high risk crop.

Larry DeVilbiss: 90% of the grain production is produced in Delta. Very little of barley used in dairy rations. Most of barley going into bagged feed for animals.

Questions/Answers:

Wes Eckert: What kind of hay does horse people like?

Larry DeVilbiss: Timothy, most of hay producers grow and mix of timothy and groan.

Mac Carter: If there enough hay produced in the State?

Larry DeVilbiss: I think we are only feeding ½ of the horse population.

Mac Carter: I thought it was 75,000 tons needed to cover all the animals?

Larry DeVilbiss: don't know.

Carol Lewis: We are forgetting the straw market which is totally unknown.

Carol Lewis: Certified weed free hay will be a huge impact, have you heard anything about that restriction from the border?

Larry DeVilbiss: We have a program for certifying weed free hay. I thing NRCS is managing the program and will open more markets, but fox tail is a huge problem.

Craig Trytten: We are short of hay and no there is surplus of grain or barley.

Wes Eckert: So dairy farmers in the State of Alaska are not importing hay at all?

Larry DeVilbiss: No, all hay imported is going to horses or hobby farms.

Chad Padgett: The Conservation Reserve program (CRP) has a roll over. It is a set aside program that took land out of production now is that being cropped. There are 29,000 acres in Delta. We are working on a roll over program, 10 year roll over's and another 10 year extension on contract. The limitation is $50,000. you can have up to $50,000 per farm per individual. Early this spring, crop land limitation only 25% of any given area can have CRP ground, 25% of the crop land. Figures in Delta were 102 acres of crop land to begin with dates back to 1987, rolled over in 1997 rolled over and now 2007 roll over. The wrong crop land figure was used and only 86,000 acres of ground was ever sold. There is 72,000 acres that we are still not sure what was cropped. The most we could come up with 72,000 acres. We are digitizing and finding out how much ground is available I figure somewhere from 30,000 to 50, 000 acres. Boiled down that is 25% roughly 10,000 acres to 14,000 acres of CRP ground. Not sure what the status is what does this means for Alaska. The barley industry has stabilized Delta; there can be no more than 1,000 acres additional barley done in the state without crashing the market.

Wes Eckert: How much an acre does a farmer get for putting it into a CRP program?

Chad Padgett: The rental rate is $35.00 per acre or $50.00 based on an established rental rate. Ball park figure no lease agreements were signed. No dollars changed hands and I'm not sure if those figures are correct.

Chad Padgett: The land has a lot of willows. For willows, not sure if a seed bed is available? Don't know if it can put back into a crop. Not sure if it would be considered crop land. Contracts are for 10 years, new roll over, 3, 4 5 or ten year's most will be 10, however, no later than 2010 crop land limitation will be in effect. Will have a decision this week.

Carol Lewis: The soils are shallow soils we are working now on how the land would be are cleared from willows.

Wes Eckert: It probably would never be farmed again.

Chad Padgett: It would take a lot do we did 100% compliance checks and found 30' to 40' trees. In the past the willows have been clipped but the root problem is a big deal.

Ernie Hall: I am assuming hay and grain are profitable crops in the State of Alaska?

Larry DeVilbiss: Yes, there successful farmers in both industries.

Ernie Hall: We know dairy industry was shrinking but is beef is growing?

Larry DeVilbiss: Yes, the beef and veal production in 1998 in Tanana was $527,000 and in 2005 it was $920,000. In Mat valley for 1998 it was $536,000 and in 2005 it was $1,068,000. Production value beef and veal, based are on dressed weight but, not dairy cattle.

H. Mt. McKinley Meat & Sausage Briefing – Ray Nix, Asset Manager, DNR, Division of Agriculture

Questions & Answers on Mt. McKinley Meat & Sausage:

Gail Phillips: By law could the property just be sold or does it have to be maintained as a slaughter house?

Ray Nix: There is a 3 year restricted convent to continue maintain at the same level.

Gail Phillips: The State is loosing money every single year because it is financially unfeasible to operate it as a slaughter house, and yet could sale the land which is very valuable and remove ARLF from debt, rather than taking a loss year after year.

Ken Sherwood: The Slaughter house plays a critical role in the scheme of

things. Is loosing $130,000 per year small potatoes as compared and if it keeps the dairy industry and Maid Maid going?
Rex Shattuck: The dividend the State gets that helps culls cows. What is a loss? There were discussion on some records and financial data. Does accounting show a loss?

Ray Nix: In FY 05 shows $140,000 loss and in FY 06 it shows a $190,000 loss that comes out of ARLF each year.

Paul Huppert: You mentioned audit trails?

Ray Nix: We have audit trails for all expenditures that show where the funds go and are available.

Rex Shattuck: ARLF pays for the facility. Why ARLF was originally created?

Ray Nix: To promote the agricultural development in the state through moderate to low interest loans.

Gail Phillips: It never anticipated it would be an operating entity or be operating cash for the State it is a loan program.

Paul Huppert: I think Department of Corrections should take it over. At the Pt. MacKenzie correctional facility they slaughter the animals. I was told they do their own killing at the Pt. MacKenzie correction facility. What liability does that state have with the inmates working at a USDA inspected facility?

Frank Huffman: I heard the rumor but I don't know.

David Wight: In 2000 evaluation it was appraised for $750,000. What is it today and what about inventory?

Ray Nix: In 2000 real property was $750,000 (improvements and equipment), in 2005 we received a $1.2million appraisal for property and it did not include equipment or personal property. Equipment and personal property over is over $300,000 now. Product inventory as of 9/30/06 is $137,000 meat product does not include other products used in processing.

David Wight: So 1.6 to 1.7 million + 100 + inventory value.

Ray Nix: Without product 1.5 million

Wes Eckert: So the last 12 months there is are $357,000 in losses?

Ray Nix: On a cash basis accounting system. Any bills not paid yet or receivables are not included.

Cathy Poulos: The amount of receivables for Aug. is $128,000 from June through end of Sept. June through October 5, 2006 there is $133,000 in outstanding receivables.

Ernie Hall: What kind of salaries does 10-14 inmates receive?

Ray Nix: We have an RSA with Department of Corrections for $36,000 for the inmate labor for one year.

Ken Sherwood: Do you original equipment?

Frank Huffman: It has been rebuilt and replaced.

Ken Sherwood: What made you profitable in the last couple of months?

Ray Nix: One month we get money and one month we don't. As a whole averaging over the two fiscal years it is $14,075.00 per month loss.

Wes Eckert: 10 to 20% higher in FY 06 versus FY 05.

Ernie Hall: It doesn't reflect the realistic labor.

Gail Phillips: That is why private sector is not interested.

Rex Shattuck: Where do you figure in your inventory, looking about in 2005 $137,000 in inventory?

Ray Nix: We took over plant in 2003 meat product inventory was just over $200,000 changed product inventory.

Rex Shattuck: The $137,000 worth of inventory that covers what you are calling a loss?

Cathy Poulos: When we took over the meat plant in 2003 it was not the intention to hold that asset for any length of time. So a decision made not to do accrual basis accounting it was revenue in and revenue out. When full inventory was done, we need to discuss on how to do it.

Rex Shattuck: Showing loss inventory turns over on a regular basis. It is not calculated in?

Joe Van Treeck: If it was liquidated today we could pay the loss.

David Wight: If you look at what has happened over the last 12 moths you have dug a $200,000 hole. You started out with $150,000 loss from the year before, so now you have a $350,000 loss and the inventory doesn't fix that

Gail Phillips: Back to very beginning and it was bankrupt within 2 years and never has gotten to that point of making money.

Wes Eckert: Your labor costs are probably $1.50 per hour inmate.

Ray Nix: The state is operating the facility and the state has certain requirements that a private person does not have.

Rex Shattuck: Not comparing to the private sector. If you liquidated you cover losses on an annual basis. Is there a loss? State operates is and how can you say there is a loss?

David Wight: If you sum back the last months we are in the hole.

Ken Sherwood: From the begging that plant didn't make money. Feasibility study on plant before my dad built it. Pointed out it was extremely iffy, the bigger volume we lost money. My argument it has never made money, its question is how's does this plant play into the whole grand plan and is it valuable enough to keep subsidizing. If you pull the plug on the plant is it the last thing?

David Wight: We need to know what is the revenue sources paid to dairy producers for their cows.

Joe Van Treeck: What is the growth revenue? We could pay everybody the market rate and leave them on the farm.

Ray Nix: The amount paid to producers for FY 06 was $270,000 included beef, swine and all animals with MMM&S.

Ray Nix: I will provide how much was paid to dairy producers shortly.

Ken Sherwood: It took 2.5 million dollars to build plant. We went to a private source and the State financed the bulk of it.

David Wight: The total purchases = 120% of the loss, you lost $200,000 and you paid $270,000 to everybody?

Ray Nix: the inmate labor in expense. High turn over value is they are consistently training not getting the best for the buck.

Rex Shattuck: But it gives inmates skills in rehabilitation process.

Ray Nix: Originally it was used as a training facility when Department of Corrections ran it. ARLF not in the business of training.

Mac Carter: You have two USDA kills floors for farmers in the area now. They would have to ship them to Delta or Fairbanks.

Ray Nix: Or an alternative. You could sale it as is where is to get money back to ARLF.

Gail Phillips: Where is the beef going to go to be slaughtered from 2002 from 2006 we have seen a decline?

Mac Carter: There are half dozen or more slaughter facilities that are not USDA.

Rex Shattuck: There has been a decrease in the number of cattle.

Joe Van Treeck: Department of corrections are the biggest buyer for the market.

Cathy Poulos: $128,000 loss showing on the books is from Department of Corrections not paying their bill.

Ken Sherwood: What is another way to take the animals and not to Mt. McKinley?

Ray Nix: All animals are not going through MMM&S there are mobile slaughter facilities.

Larry DeVilbiss: A majority of what Corrections are getting is not Alaska meat. How much is boxed from the outside and how much is Alaska meat?

Ray Nix: 75% is coming from box meat from outside. There would be more of a loss if it did not have boxed meat.

Joe Van Treeck: The total value of sales 1.5 to 1.3 million represents at 10% loss not a 15% loss.

Rex Shattuck: Wild game is not processed at MMM&S.

Wes Eckert: What do you do with the boxed meat for Department of Corrections?

Frank Huffman: We pass it through just for them.

Wes Eckert: The state contract for country foods out of Kenai, look at our sales at the MMM&S and Corrections is not buying from us.

Frank Huffman: The boxed meat from country foods is from the lower 48. Just not beef, chicken, turkey whatever the institution needs.

I. Committee Business

Rhonda Boyles:
Information requests for next meeting:
Federal Loans – Chad Padgett
State Loans – Candy Easley
State Assets – Ray Nix
Dairy Producers presentation (Brost/Trytten/Havemeister). A written request will be sent.

David Wight: Meat Processing is one of the leg of the stool, components of cost and money in each component. A system not independent. He needs to know who the meat side puts income and business capability so we can understand it. I need to understand how much under market price is the meat sold to DEPARTMENT OF CORRECTIONS and therefore is it a loss or profit? Then you could get a better understanding. Somehow the loans are part. I need the overall financials what the State and how subsidized. A picture of what we are talking about. The ARLF loan portfolio is important.

Don Lintelman: If they farmer has cull cows, where do they take them, how much?

Rhonda Boyles: We need to be able give you financial impact of the history. Also, if we remove MMM&S what are the pros and cons, if we go to a smaller processing plant what are the pros and cons. On the third day we will begin to draft outline on options. What is the State's commitment to agriculture?

Carol Lewis: Good information for the producers to tell us how much for milk, how much for cull cows, what if I had to move it to Delta. The producers should have a good handle for the next meeting.

Rex Shattuck: Ask for the Ferguson report.

Joe Van Treeck: Will mail it or bring them to the next meeting.

Wes Eckert: What would Mat Maid look like private?
What are you paying for building, equipment or you paying all those expenses as a State as compared as a private owned?

Mac Carter: How much the dairy, MMM&S and Mat Maid is the threat through business statewide. How many business would it effect. Could a synopsis be created?

Carol Lewis: The agriculture multiplier is very low. 1.3 or 1.4 turnover. Is a way to bring diversification into the economy? It would be worthwhile generating, natural resource multipliers but they are very low.

Wes Eckert: What is the price the State need to contribute to make the entities work?

Don Lintelman: How much is this economy pumping into the State?

Joe Van Treeck: How many dollars worth of sales can you loose and still recover the business market?

Rex Shattuck: How far back to you go back to correct the problem?

Gail Phillips: Transportation and energy for all the economic development in Alaska.

Rhonda Boyles: A factual Department of Natural Resources, Division of Agriculture to articulate this information to give to the administration so they have a report. Good numbers will be provided pros versus cons.

David Wight: I understand the producer model if you had 300 cows, how many per year do you turn over and if you can't sale them how much does it cost to dispose them?

Rhonda Boyles:

- The producers will give us ideas and that will be articulated in the letter.
- Joe Van Treeck can answer Creamery questions.
- Ray: MMM&S and put numbers to values to the whole facility.
- Frank will get information about how much the new state contract it and how much money we save the State with training inmates.
- Larry will provide numbers about what would happen to hay production.

Gail Phillips: Right now DEPARTMENT OF CORRECTIONS does not buy meat from MMM&S because it was an uncertain market. Buying from a general broker in Alaska what is the price difference?

Rex Shattuck: Maybe there is a value for Department of Corrections to come and talk with us about the Pt. MacKenzie farm?

David Wight: Only if it fits into the dairy picture.

Next Meeting:

October 16, 2006
October 23, 2006
October 31, 2006

The Ad Hoc committee members unanimously agreed to have Rhonda Boyles facilitate the meetings.

Adjourned at 4:45 p.m.